

(*Representative Democracy*) Major political parties typically offer "middle of the road" platforms rather than take extreme positions. How is this consistent with the concepts of the median voter and rational ignorance discussed in this chapter?

3 Explain why some people want to use government power to increase their income, while others try to avoid government

(*Seeking vs. Avoiding Government*) Why are some people drawn to government while other people don't want to have anything to do with government?

(*Rent Seeking*) Explain how rent seeking can lead to a drop in production of goods and services. What role might the underground economy play in lessening the drop in productive activities?

4 Outline the differences between government bureaus and for-profit firms

(*Bureaucracy and Representative Democracy*) How do the incentives and feedback for government bureaus differ from those for profit-making firms?

(*Bureaucracy and Representative Democracy*) A firm is described as combining managerial coordination with market exchange in order to produce its good or service. Does similar behavior occur in government bureaus? Explain.

CHAPTER 17

7-1 Describe the common pool problem and summarize ways to address it

(*Externalities*) Complete each of the following sentences:

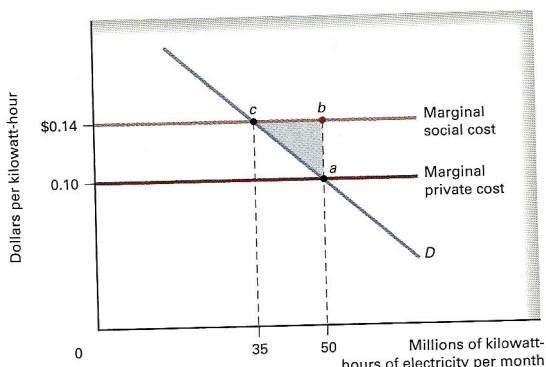
- Resources for which periodic use can be continued indefinitely are known as _____ resources.
- Resources that are available only in a fixed amount are _____ resources.
- The possibility that a open-access resource is used until the net marginal value of additional use equals zero is known as the _____.

(*Resolving the Common-Pool Problem*) Why have authorities found it so difficult to regulate the fishing catch in the open ocean to allow for a sustainable yield?

7-2 Determine the optimal level of pollution with fixed technology and with variable technology

(*Negative Externalities*) Suppose you wish to reduce a negative externality by imposing a tax on the activity that creates that externality. When the amount of the externality produced per unit of output increases as output increases, the correct tax can be determined by using a demand-supply diagram; show this. Assume that the marginal private cost curve slopes upward.

Negative Externalities: The Market for Electricity in the Midwest



- (*Negative Externalities*) Review the situation illustrated in the graph above. If the government sets the price of electricity at the socially optimal level, why is the net gain equal to triangle *abc*, even though consumers now pay a higher price for electricity? What would the net gain be if the government set the price above the optimal level?

- (*External Costs*) Use the data in the table below to answer the following questions.

- What is the marginal external cost of production?
- What level is produced if there is no regulation of the externality?
- What level should be produced to achieve economic efficiency?
- Calculate the dollar value of the net gain to society from correcting the externality.

Quantity	Marginal Private Benefit (demand)	Marginal Private Cost (supply)	Marginal Social Cost
0	—	\$ 0	\$ 0
1	\$10	2	4
2	9	3	5
3	8	4	6
4	7	5	7
5	6	6	8
6	5	7	9
7	4	8	10
8	3	9	11
9	2	10	12
10	1	11	13

- (*External Costs with Variable Technology*) Think of an industry that pollutes the water and has access to variable technology for reducing that pollution. Graphically illustrate and explain the impact of each of the following, other things constant, on the optimal level of water quality:

- New evidence is discovered about a greater risk of cancer from water pollution.
- The cost of pollution-control equipment increases.
- A technological improvement reduces the cost of pollution control.

- (*Market for Pollution Rights*) The following graph shows the market for pollution rights.

- If there are no restrictions on pollution, what amount is discharged?
- What is the quantity supplied and the quantity demanded if the government restricts the amount of discharge to Q^* but gives the permits away?